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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

21 October 1988

Brazil's Changing Computer Policies [redacted] 25X1

Summary

Since US disputes with Brazil over its restrictive "informatics" policies came to a head last year, notable changes have occurred in Brasilia's position on foreign participation in its domestic computer market. In particular, the government has reined in the country's computer regulatory agency, SEI, long an aggressive champion of protectionism. Although SEI is still in business and still able to block some foreign entrants into the Brazilian market, we expect its influence to diminish as Brazil gradually sheds its autarkic instincts.

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Changing Attitudes and New Measures

Since last November, marked changes have occurred in the attitude of high level Brazilian officials toward the longstanding market reserve policy on computer-related goods. Numerous public statements and official actions indicate a growing tendency to avoid the strictest interpretation of the Informatics Law.

This typescript was prepared by [redacted] South America-Caribbean Division, Office of African and Latin American Analysis. Comments and queries are welcome and may be directed to the Chief, South America-Caribbean Division, ALA, [redacted] 25X1 25X1

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-- President Sarney indicated during an interview in June that he no longer supports the restrictive policies Brasilia has developed over the past decade.

-- The Minister of Communications--angered by excessively high prices for equipment affected by the informatics law--last month said the law not only hinders domestic competition that would lead to better products, but promotes computer smuggling.

-- The Minister of Industry and Commerce declared that restrictive policies are turning the country's industrial park into a "junk pile" and increasing Brazil's technology lag.

-- Even Former SEI Chief Edson Dytz--author of the basic informatics law--commented to US Embassy officials that current policy leaves domestic industry uncompetitive internationally and struggling under a complex, bureaucratic process.

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Brasilia's shifting attitude is further underscored by recent measures easing some important restrictions and significantly circumscribing SEI:

-- Sarney last month lifted the 1988 informatics goods import quota--a favored SEI tool for enforcing import restrictions. Sarney cited the country's record high trade surplus and ready availability of foreign exchange reserves.

-- Just before the new constitution revoked his decree power, Sarney moved SEI from the jurisdiction of the Ministry of Science and Technology, traditionally a bastion of protectionism, placing it directly under the presidency. He also outlined new guidelines to speed appeals against unfavorable government rulings on import proposals.

-- The President's legal advisor recently issued an opinion that, contrary to SEI's interpretation, the informatics law does not prohibit high technology joint ventures involving foreign capital. The Brazilian press hailed the ruling as a basic reinterpretation of the informatics law.

-- Sarney replaced the previous Science and Technology Minister with a less opinionated figure.

Although a liberalizing trend is clear, none of these measures guarantees market access for foreign computerware or ends SEI's function as Brazil's computer regulatory agency. The import quota, for instance, may be renewed in 1989. Moreover, SEI retains authority to judge joint venture proposals on a case-by-case basis. Even so, we believe Brasilia is making a conscious effort to change the way it does business on informatics.

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Assessing SEI

The extent of SEI's remaining ability to push for restrictions is unclear. SEI directors, on the defensive, reportedly continue to support the computer market reserve strongly but say that they plan to be more circumspect and selective in taking on other government offices that favor fewer restrictions. In one important case SEI has already signalled that it will persist in obstructionist policies, while in other pending cases its intentions are not yet known. In any case, it is obvious that SEI still has troublemaking potential.

-- This month SEI disapproved a US bid to sell a mid-sized computer line to a US bank operating in Brazil. In so doing, the Agency expanded its definition of market reserve into the heretofore unrestricted medium and mainframe business. The US Embassy calls the move extremely troubling and inconsistent with policies advocated by more liberal government officials.

-- In an ongoing case, a Brazilian firm has asked SEI to ban a popular US spreadsheet program, claiming it can produce a comparable product. The Brazilian firm's program is reportedly a pirated US product, ineligible for protection as a nationally developed good.

-- A highly sensitive case involves an effort by COBRA--the state-owned computer firm--to exclude a US operating system wanted by most Brazilian hardware manufacturers. If SEI determines that the US-produced system is eligible for sale in Brazil, COBRA is likely to go bankrupt. COBRA's national symbolism and its influence in Brasilia have put additional pressure on SEI to deny the US bid.

In addition to such specific cases, observers are concerned that Brazil's Central Bank, worried by potential overinvoicing on software imports, wants to send import applications valued above $300 to SEI. Since this would submit otherwise exempt products to SEI scrutiny, the US Embassy opines that the move would violate the letter and intent of the new software law that was designed to ease some restrictions on foreign producers.

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Computer Policy In Perspective

In our view, complaints from a widening domestic constituency paralleling those from foreign computer manufacturers have convinced high-level officials that computer market liberalization is in Brazil's best interest. Brazilian users increasingly complain that the shoddy, obsolete, and costly informatics equipment produced domestically hampered their operations and modernization at a time of markedly worsened overall economic conditions. Brasilia's

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financial pinch has added to arguments that the costs of supporting domestic manufacturers--through subsidies and protection--had become too much to bear. 25X1

The realization that the closed market--not only for informatics but for imports in general--is damaging Brazil's development has led to a larger debate that is far from being resolved. Brazil is taking some steps toward a more open economy overall, even as influential sectors continue to push for restrictions. For instance, in May Brasilia promulgated the New Industrial Policy (NIP) to reduce trade and investment restrictions and decrease the government's role in the economy. Sarney hailed the policy as the end of the autarkic modernization model Brazil had followed for decades. Nevertheless, Brasilia omitted informatics from NIP measures and has so far failed to announce implementing regulations to put NIP rules into effect. In another apparent contradiction, the new constitution includes an array of protectionist articles--prohibiting foreign capital in some sectors, and creating new market reserves. 25X1

Outlook and Implications

We expect no major revision of informatics laws during the continuing political transition. The promulgation of the constitution earlier this month sets the stage for more complex policymaking and prolonged political debate as Congress begins exercising its new role. Once eyes turn to next year's presidential election campaign, informatics and market reserve issues in general will probably take a backseat, further prolonging resolution. 25X1 25X1

While the shift in Brazilian attitudes suggests a gradual crumbling of the market reserve over the next several years, SEI's rulings on import, investment, and joint venture proposals are likely to continue to inhibit US access to the Brazilian computer market and remain an irritant in bilateral relations in the near term. 25X1

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